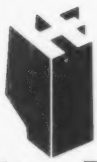


Heritage Fund

2006
ANNUAL REPORT

Alberta Heritage Savings Trust Fund

For the year ended March 31, 2005

Alberta

ISBN 0-7785-4418-4
ISSN 0702-9721

2007-00094

Table of Contents

Minister of Finance's Report 2
Fund Governance 3
Business Plan 4
The Year in Review 6
Performance Measurement 9
Administrative Expenses 14
Historical Summary of Operations 15
Financial Statements 16
Auditor's Report 17
List of Investments 38
Glossary 41
Committee Members 45

Additional copies of this report and copies of future quarterly reports on the Heritage Fund may be obtained by writing:

Heritage Fund, Room 434, Terrace Building
9515 - 107 Street,
Edmonton, Alberta T5K 2C3

Or by calling (780) 427-5364

Or by visiting our website at: www.finance.ab.ca

Minister of Finance's Report to Albertans on the Alberta Heritage Savings Trust Fund

I am pleased to present the 2006 Annual Report of the Alberta Heritage Savings Trust Fund. The Fund has been a successful part of Alberta's financial picture for the past 30 years and has contributed approximately $28.6 billion to the Province's general revenues. Contributions to general revenues have helped support spending on health, education and other services that Albertans value.

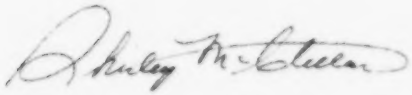
With last year's announcement that the Province is debt free, focus has now turned to growing the Heritage Fund. This year, the government transferred $1.75 billion into the Fund from the General Revenue Fund. We also began to inflation-proof the Fund in 2006, which resulted in $382 million being retained in the Fund in order to maintain its value.

The Fund's investment income of $1.397 billion and unrealized capital gains of $466 million accounted for the investment return of 15.2% for the year. All of the Fund's investment income was transferred to the Province's general revenues except for the amount retained in the Fund for inflation proofing. As a result, $1.015 billion was transferred to general revenues.

At March 31, 2006, the fair value of the Fund's net assets increased to $14.8 billion, up $2.6 billion from $12.2 billion at the beginning of the year. Transfers into the Fund of $1.75 billion, unrealized capital gains of $466 million and $382 million retained in the Fund for inflation proofing accounted for the overall increase in net assets of $2.6 billion.

The Fund's investments are prudently managed with a long-term focus. The assets of the Heritage Fund are invested globally with important allocations to Canada, the United States, Europe, Asia and the Far East. The Fund is comprised of investments in bonds, equities, real estate, derivatives and alternative investments such as absolute return strategies, private equities, private income and timberland investments.

The Heritage Fund is changing to meet the needs of Albertans in the 21st century. This substantial and dynamic financial resource will continue to work hard for Albertans, and will help ensure they benefit from the vast opportunities that lie ahead.



Honourable Shirley McClellan
Minister of Finance

Fund Governance

- The Heritage Fund was established in 1976 and operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. On January 1, 1997, a new *Act* was passed that sets out a revised investment framework for the Fund.
- The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan and annual report of the Fund. The Standing Committee has representation from the major parties of the legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the Province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objective.
- The Ministry of Finance is responsible for the Fund and its investments. The Minister of Finance is required to report on the performance of the Fund within 60 days of the end of each quarter and make public the annual report within 90 days of the end of the fiscal year.
- The Minister of Finance established the Endowment Fund Policy Committee (EFPC) in 2003, adding private sector financial and business advice in the formulation of the Fund's investment policies and operation. The EFPC consists of private sector members and government MLA's. The Committee reviews and makes recommendations to the Minister of Finance with respect to the business plan, annual report and investment policy statements for the Fund. The Committee meets at least quarterly to review performance and fund management.
- The business plan of the Heritage Fund is published as part of the provincial budget and the income of the Fund is consolidated into the revenue of the Province.
- The investment portfolio of the Heritage Fund is managed by Alberta Investment Management (AIM), a group of qualified and experienced professionals in Alberta Finance. External specialized private sector investment managers are used to manage specific investment mandates.

Business Plan

PURPOSE

The business plan of the Heritage Fund describes the mission, investment objective, goals and performance measures and policy benchmarks. The business plan is reviewed annually and is published as part of the Provincial budget. The Endowment Fund Policy Committee (EFPC) reviews and makes recommendations to the Minister regarding the business plan and the investment policies for the Fund. The business plan is then reviewed and approved by the Minister of Finance, the Treasury Board and the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

MISSION

The statutory mission of the Fund is:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

INVESTMENT OBJECTIVE

The investment objective of the Fund is to maximize long-term financial returns subject to an acceptable level of risk. By legislation, Alberta Finance operates under the "Prudent Person Rule". This rule assigns to the investment manager the responsibility to restrict investments to assets that would be approved by a prudent person. Investment funds with long-term investment horizons and an objective to optimize long-term returns invest a significant amount of their assets in equities since equities have historically provided investors with higher total returns (dividends and capital gains) than interest bearing securities. The Heritage Fund follows a similar strategy to achieve higher financial returns. However, this can result in more volatility in capital gains and less interest income.

GOALS AND PERFORMANCE MEASURES

The three main goals of the Fund and their related performance measures, as outlined in the Fund's business plan, are as follows:

1. **Preserve the real value of the assets.**

   - The Alberta Heritage Savings Trust Fund Act provides for the maintenance of the Fund's real value by requiring the Heritage Fund to be inflation-proofed once the accumulated debt of the Province is eliminated. Inflation-proofing the Fund and preserving the real value of assets over a long-term horizon of 20 years are key outcomes of the Fund. In 2006, $382 million was retained in the Fund in order to maintain its value.

   - Investments must be made with the objective of maximizing long-term financial returns. A key performance measure is a comparison of the actual annualized market value rate of return, over 5 years, against the Consumer Price Index (CPI) plus 4.5% to determine whether the investment policy is achieving the returns expected based on long-term capital market assumptions. As discussed on page 9, over 5 years, the Fund's actual annualized return was 7.1% compared to the expected long-term return of 6.7%.

2. **Achieve budgeted cumulative income forecasts during a 5-year planning horizon.**

   - The consolidated revenue of the Province of Alberta includes the income earned by the Heritage Fund determined by the cost basis of accounting. Therefore, the level and variability of Heritage Fund income is important to the government's fiscal plan. While income may vary from year to year, over a 5-year period, it is reasonable to expect targets to be met. Long-term capital appreciation is also desired. A key performance measure is the comparison of the Fund's

cumulative budgeted income over a 5-year period against the cumulative actual income. Over 5 years, total actual income was $2,935 million compared to budgeted income of $2,936 million (see table on page 7).

- It is widely accepted that a prudent mix of interest-bearing securities, equities, real estate and alternative investments best achieves the objective of optimizing financial returns diversifying risk. A key performance measure is to compare the actual market value rate of return against the policy benchmark to determine the impact of fund management on performance using the appropriate policy benchmark for each asset class. AIM will seek to add 50 basis points of value per year, net of fees. One basis point equals 0.01%. In 2005-06, the Fund's actual return of 15.2% was 140 basis points greater than the policy benchmark return of 13.8%. A comparison of actual returns by asset class to benchmark returns is provided on page 9 to 14.

3. **Ensure the transparency of the Heritage Fund's objective and results for Albertans.**

- Results from the "Looking Forward" survey in the fall of 2002 confirm Albertans want a strong, healthy Heritage Fund that is used primarily for savings. Published reports and news releases will ensure Albertans remain aware of the performance of the Heritage Fund and its management, operations and investment philosophy. Key outcomes and performance measures include improved understanding of the Fund by Albertans through timely and regular quarterly and annual reports in simple and understandable language, summary reports of the Heritage Fund's investment activities, published business plans and annual accountability meetings by the Legislature's Standing Committee.

POLICY BENCHMARKS

The Fund's Business Plan called for the following major changes to the long-term policy asset allocation:

- Decrease investments in fixed income securities from 32.5% to 30.0%.
- Decrease investments in absolute return strategies from 7.5% to 5.0%.
- Increase investments in private equities and private income from 5.0% to 8.0%.
- Increase new investments in timberland to 2.0% of the total portfolio.

The following table summarizes the business plan performance measures, including long-term investment policy weights and benchmark return indices by asset class.

	Long Term Policy Allocation		
ASSET CLASS	**2005-06**	**2004-05**	**Benchmark Return Index**
Fixed income:			
Money market	1.0%	2.0%	Scotia Captial 91-Day T-Bill
Bonds	29.0%	30.5%	Scotia Captial Universe Bond Index
	30.0%	**32.5%**	
Public equities			
Canadian	15.0%	15.0%	Toronto Stock Exchange (S&P/TSX) Composite Index
United States	15.0%	15.0%	Standard & Poor's (S&P) 1500 Index
Non-North American	15.0%	15.0%	Morgan Stanley Capital (MSCI) EAFE Index
	45.0%	**45.0%**	
Real Estate	**10.0%**	**10.0%**	IPD Large All Property Index
Absolute Return Strategies	**5.0%**	**7.5%**	HFRX Global Hedged Index
Private equities	**4.0%**	**5.0%**	Consumer Price Index (CPI) plus 8%
Private income	**4.0%**	-	Consumer Price Index (CPI) plus 6%
Timberland	**2.0%**	-	Consumer Price Index (CPI) plus 4%
	100.0%	**100.0%**	

The Year in Review

(April 1, 2005 to March 31, 2006)

MARKET SUMMARY

The Canadian stock market posted very strong returns this year. Oil prices increased to record levels, and as a result, the energy sector in the S&P/TSX Composite Index increased by 51.0% during the year ending March 31, 2006. Overall, the Canadian stock market, represented by the S&P/TSX Index, increased by 28.4% this year compared to 13.9% the previous year.

The Canadian dollar continued to strengthen against world currencies such as the euro, yen, pound and U.S. dollar. Federal Government surpluses, rising oil prices, robust growth forecasts and expectations of higher interest rates helped fuel the increase in value of the Canadian dollar. At March 31, 2006, one U.S. dollar purchased $1.17 Canadian compared to $1.21 at March 31, 2005. As a result, the value of the Fund's U.S. equity investments decreased when translated into Canadian dollars, resulting in lower investment income.

The S&P 1500 Index, which tracks the performance of the top 1,500 American companies, increased by 13.0% over the year in U.S. dollars, compared to 7.2% the previous year. In Canadian dollars, the increase in the S&P 1500 Index was lower at 9.1% compared to negative 1.0% the previous year. Currency movements had a negative impact, pulling returns from U.S. investments down when translated into Canadian dollars.

Overall, non-North American markets had healthy returns in 2005-06. The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, (MSCI EAFE Index), measures the performance of approximately 1,200 companies on 25 stock exchanges around the world. The index increased by 20.0% in Canadian dollars compared to 6.2% the previous year. Growth in demand from China continues to be strong, keeping commodity prices firm.

Major Indices

Year Ended March 31, 2006

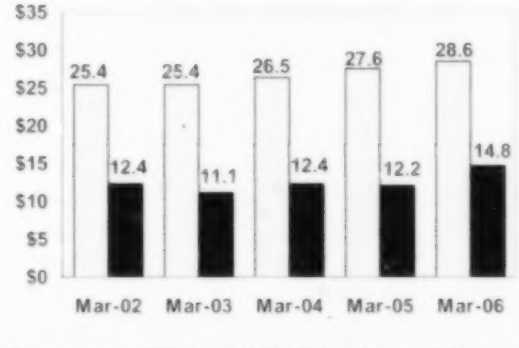
	2006 %	2005 %
Stock Markets		
Canadian		
S&P/TSX Index	28.4	13.9
United States		
S&P 1500 Index (US $)	13.0	7.2
S&P 1500 Index (Cdn $)	9.1	(1.0)
Non North American		
MSCI EAFE Index (Cdn $)	20.0	6.2
Canadian Bond Market		
SC Bond Universe Index	4.9	5.0

NET ASSETS AND TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

Net assets represents the difference between the value of assets held by the Fund and its liabilities. At March 31, 2006, the Fund's net assets at fair value totalled $14.8 billion (cost: $13.5 billion), up $2.6 billion from $12.2 billion (cost: $11.4 billion) at the end of the previous year. Since 1976, total transfers to the GRF increased to approximately $28.6 billion.

Net Assets and Transfers to the GRF since 1976

(billions)



CHANGE IN NET ASSETS

The Heritage Fund accounts for its investments and investment income on a cost basis of accounting, which excludes unrealized gains and losses. Investment and investment income, on a fair value basis, includes unrealized gains and losses. The investment income, on a fair value basis, for fiscal year 2005-06 is $1,863 million (2004-05: $918 million).

Change in Net Assets

(At Fair Value)
(millions)

	2006	2005
Net assets, beginning of year	$ 12,222	$ 12,396
Investment income, cost basis (1)	1,397	1,092
Transfers to the GRF (2)	(1,015)	(1,092)
Amount retained for inflation-proofing	382	-
Transfers from the GRF (3)	1,750	-
Change in unrealized gains	466	(174)
Change in net assets	**2,598**	**(174)**
Net Assets, end of year (4)	$ 14,820	$ 12,222

1. Investment income includes interest, dividends, realized gains and losses, derivative income and administration expenses.
2. Section 8(2) of the Alberta Heritage Savings Trust Fund Act states that the net income of the Fund, less any amount retained in the Fund to maintain its value, shall be transferred to the GRF.
3. The Access to the Future Act provides for the transfer of up to $3.0 billion from GRF to the Fund on account of the Access to the Future Fund, of which $750 million was transferred to the Fund in December 2005. In addition, a special payment of $1 billion was received from GRF in March 2006, which is unrelated to the Access to the Future Fund.
4. Includes investments of $15,007 million less net current liabilities of $187 million.

INVESTMENT INCOME

In fiscal year 2005-06, the Fund recorded net income of $1,397 million, determined on a cost basis, compared to $1,092 million in the previous year. Of the total income earned during the year, $509 million (2004-05: $424) came from interest, dividends, real estate income and security lending income, net of administrative fees, and $888 million (2004-05: $668) came from net realized gains from sale of securities and gains and losses from derivative transactions.

The Government of Alberta financial statements are prepared on a consolidated basis. Therefore, income the Heritage Fund earned from Alberta provincial corporation securities, totaling $15 million for the year is eliminated on consolidation. On a consolidated basis, the Heritage Fund net income was $1,382 million.

Over five years, the Fund's cumulative net income was $2,935 million compared to the cumulative budgeted income of $2,936 million.

Comparison of Budgeted Income to Actual Income

(millions)

	Budget	Actual	Variance
2005-06	$ 681	$ 1,397	$ 716
2004-05	644	1,092	448
2003-04	440	1,134	694
2002-03	591	(894)	(1,485)
2001-02	580	206	(374)
5 Year Total	$ 2,936	$ 2,935	$ (1)

TRANSFERS TO THE GENERAL REVENUE FUND AND INFLATION-PROOFING

In accordance with section 8 of the *Alberta Heritage Savings Trust Fund Act*, the net income earned by the Fund, less an amount retained for inflation-proofing, is transferred to the Province's main operating fund, the GRF. Unrealized gains and losses are not included in amounts transferred to the GRF. During the year, $382 million was retained in the Fund to maintain its value.

At March 31, 2006, outstanding income transfers payable to the GRF totalling $77.7 million are comprised of the following:

	2006	2005
Due to GRF, beginning of year	$ 62.4	$ 152.5
Net income for the year	1,397.4	1,091.9
Amount retained for inflation-proofing	(382.1)	-
Payments to GRF during the year	(1,000.0)	(1,182.0)
Due to GRF, end of year	$ 77.7	$ 62.4

INVESTMENT VALUATION

Investments and investment income are recorded on the financial statements of the Heritage Fund at cost in accordance with government accounting policies. The fair value of the Fund and its investments are provided for information purposes. Management uses fair value to assess the investment performance of the fund against market-based benchmarks.

The Fund's policy is to write-down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. The Fund's net income for fiscal 2005-06 includes write-downs totaling $43.1 million (2005: $34.4 million).

INVESTMENTS

Asset Mix

The investment strategy is to invest in a diversified portfolio to optimize long-term returns at an acceptable level of risk. The policy asset allocation is reported in the Fund's 2006-09 business plan as follows:

Asset Mix Policy
(percent of fair value)

	Long Term Policy Asset Mix		Actual Asset Mix	
	2006	2005	2006	2005
ASSET CLASS				
Fixed income				
Money market	1.0	2.0	2.0	0.8
Fixed income securities	29.0	30.5	31.3	31.9
	30.0	32.5	33.3	32.7
Public equities				
Canadian	15.0	15.0	17.0	18.5
United States	15.0	15.0	16.8	16.2
Non-North American	15.0	15.0	16.8	16.1
	45.0	45.0	50.6	50.8
Real estate	10.0	10.0	9.6	9.7
Absolute return strategies	5.0	7.5	3.8	5.0
Private equities	4.0	5.0	1.7	1.3
Private income	4.0	-	0.6	0.5
Timberland	2.0	-	0.4	-
	100.0	100.0	100.0	100.0

Based on the Heritage Fund 2006-09 business plan, the long-term policy asset mix for fixed income securities decreases from 32.5% to 30.0%. The long-term policy mix for public equity investments remains the same at 45.0%. Real estate investments remained unchanged at 10.0% of total portfolio investments. Absolute return strategy investments decrease from 7.5% to 5.0%. Private equity investments decrease from 5.0% to 4.0%, while private income and timberland investments increase to 4.0% and 2.0% respectively, of total portfolio investments.

The long-term objective is to increase alternative investments to 15.0% of the Fund's total investment portfolio. Alternative investments include absolute return strategies, private equities, private income and timberland. These investments are in a relatively illiquid asset class and will require time to build up to their target asset mix.

The actual investment mix for fixed income securities increased to 33.3% from 32.7% at the beginning of the year. Public equity investments decreased to 50.6% from 50.8%. Real estate investments decreased to 9.6% from 9.7% of the Fund's total investment portfolio. Absolute return strategies decreased to 3.8% from 5.0%. Private equities increased to 1.7% from 1.3% and private income investments increased to 0.6% from 0.5% at the beginning of the year. Newly initiated timberland investments comprised 0.4% of the total portfolio.

New Investment Products

In order to further diversify the Fund's investment portfolio, new investments initiated during the year include timberland, currency alpha and EAFE structured equity products (see Note 3 to the financial statements). Timberland products, responsibly managed, are a renewable and sustainable resource. Demand for timberland products has increased over the past decades, and is expected to continue to grow in the future. Timberland investments have historically provided attractive real rates of return. The currency alpha investment earns returns through active currency management, while the EAFE structured equity investment provides exposure to non-North American equity markets primarily through foreign equity index swaps.

Performance Measurement

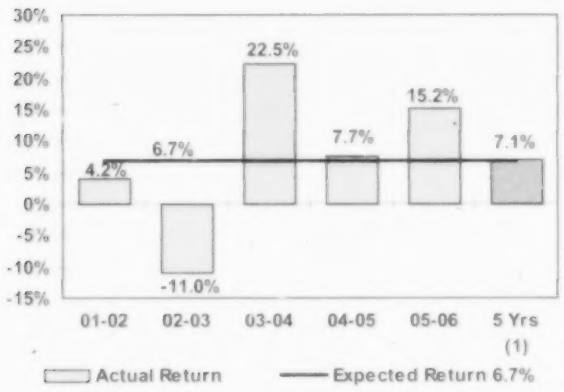
HERITAGE FUND RATE OF RETURN

The Fund posted an overall rate of return of 15.2% this year compared to 7.7% last year. This year's return was 140 basis points better than the Fund's policy benchmark return of 13.8%.

The performance of the Fund is measured over the long-term. Over the past five-year period, the fund generated a nominal annualized return of 7.1%, compared to the expected nominal long-term rate of return of 6.7%. The nominal annualized return of 6.7% includes the real rate of return of 4.5% plus annualized inflation of 2.2% over a moving five-year period.

Heritage Fund Annual Returns and Annualized 5-Year Return

(at fair value)



(1) Annualized

The performance of the Heritage Fund investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection. The following sections describe the performance of the Fund's major asset classes in relation to their benchmarks.

Business Plan Performance Measures

Time Weighted Rates of Return
(percent)

The following table summarizes the Fund's actual returns and related benchmark returns by asset class and for the Fund overall.

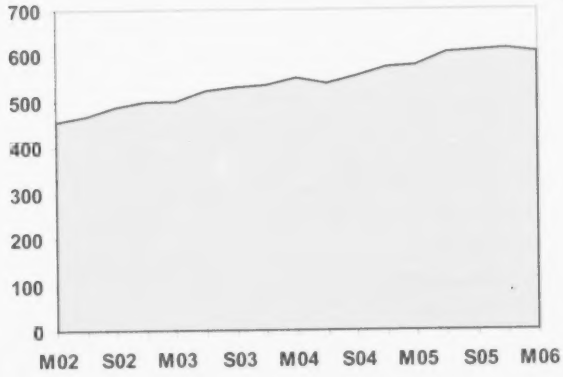
	2006	Five Years(1)
Overall actual return	**15.2**	**7.1**
Benchmark(2)	*13.8*	*6.7*
ST fixed income	**2.9**	**3.0**
SC 91-Day T-Bill	*2.8*	*2.9*
LT fixed income	**6.5**	**7.7**
SC Universe Bond Index	*4.9*	*7.0*
Canadian public equities	**28.8**	**12.1**
S&P/TSX Index	*28.4*	*11.7*
US public equities	**8.2**	**-1.8**
S&P 1500 Index(3)	*9.1*	*-1.7*
Non-North American Equities	**24.2**	**4.7**
MSCI EAFE Index	*20.0*	*3.3*
Real Estate	**20.7**	**12.3**
IPD Large All Property Index(4)	*18.1*	*10.0*
Absolute Return Strategies	**5.2**	**n/a**
HFRX Global Hedged Index (5)	*10.1*	*n/a*
Private equities	**18.4**	**n/a**
CPI plus 8.0%	*10.2*	*n/a*
Private income	**21.3**	**n/a**
CPI plus 6.0%	*8.2*	*n/a*
Timberland (6)	**-4.9**	**n/a**
CPI plus 4.0% (6)	*4.2*	*n/a*

(1) Returns for 5 years are annualized.
(2) Overall one-year benchmark returns are the product of the weighted average policy sector weights and the sector benchmark returns. Over a moving five-year period, the Fund is expected to generate a real rate of return of 4.5%; the annualized inflation rate was 2.2%, and therefore the Fund is expected to generate a nominal annualized long-term rate of return of 6.7%.
(3) Prior to April 1, 2004, the benchmark for U.S. equities was the S&P500 Index.
(4) Benchmark returns are estimated and may vary significantly from actual amounts when received. Prior to June 1, 2005, the benchmark for real estate was CPI plus 5%. Prior to April 1, 2002, the benchmark was the Russell Canadian Property Index.
(5) Prior to July 1, 2005, the benchmark return was the CPI plus 6%.
(6) Returns from Timberland investments are for nine months.

Fixed Income Investments

The Scotia Capital (SC) Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the SC Universe Bond Index increased by 4.9% compared to 5.0% the previous year. The short term SC 91-Day T-Bill Index increased by 2.8% compared to 2.2% last year.

SC Universe Bond Index



LT Fixed Income	Actual Return %	Benchmark SC Universe Bond Index %	Over (Under) bps*
One Year	6.5	4.9	160
Five Years (annualized)	7.7	7.0	70

ST Fixed Income	Actual Return %	Benchmark SC 91-Day T-Bill Index %	Over (Under) bps*
One Year	2.9	2.8	10
Five Years (annualized)	3.0	2.9	10

* one basis point equals 0.01%.

The Fund's actual rate of return over the year from long-term Canadian fixed income securities was 6.5%, 160 basis points better than the benchmark SC Universe Bond Index. Over five years, the return from long-term fixed income securities was 7.7%, or 70 basis points better than the benchmark of 7.0%. The out-performance over one and five years was largely due to better than expected returns from directly held loans. The Fund's return from short-term securities was 2.9% and 3.0% over one year and five years respectively.

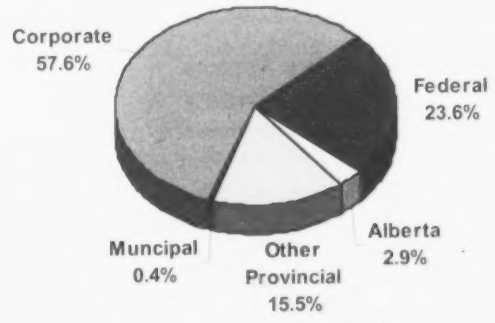
The Heritage Fund's fixed income portfolio is internally managed through various pools and through direct holdings.

At March 31, 2006, the Fund's investment in fixed income securities totalled 33.3% of total portfolio investments or $5.0 billion, up from 32.7% or $4.0 billion at March 31, 2005.

The Fund's Canadian fixed-income portfolio is comprised of diversified holdings in corporate, federal, provincial and municipal bonds, notes and short-term paper.

Summary of Fixed Income Holdings

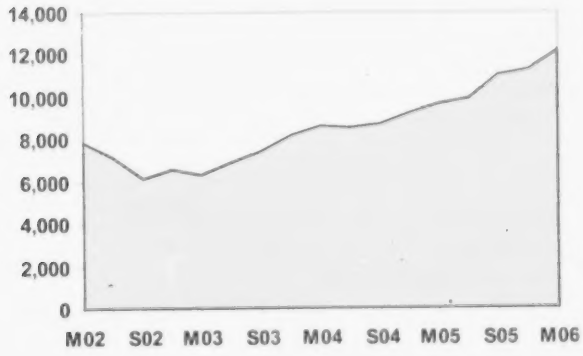
(Issued & guaranteed by)



Canadian Equity Investments

The Canadian stock market had a strong year. The Toronto Stock Exchange (S&P/TSX Index), which measures the performance of Canada's top companies, reported a return of 28.4% for the year ending March 31, 2006, compared to 13.9% last year. The energy and materials sectors led all sectors with returns of 51.0% and 33.6% respectively. The consumer staples and information technology sectors finished the year with the lowest returns of negative 7.3% and positive 4.7% respectively.

S&P/TSX



Canadian Public Equities	Actual Return %	Benchmark S&P/TSX Index %	Over (Under) bps
One Year	28.8	28.4	40
Five Years (annualized)	12.1	11.7	40

The Fund's Canadian equity portfolio is held in various investment pools, which are managed by internal and external managers. Over the year, the Fund's actual return from Canadian equities rose by 28.8%, 40 basis points better than the benchmark S&P/TSX Composite Index of 28.4%. Over five years, the Fund's return from Canadian equities was 12.1% compared to the benchmark return of 11.7%.

At March 31, 2006, investments in Canadian public equities totaled 17.0%, or $2.6 billion, of the Fund's investment portfolio compared to 18.5%, or $2.3 billion, one year earlier.

The following table shows that 60% of the Fund's public equity portfolio is exposed to the financial and energy sectors of the Canadian stock market.

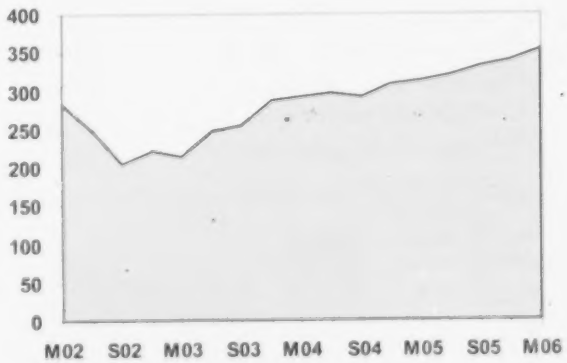
Canadian Public Equities
(By Industry Sector)

	2006 %	2005 %
Financials	31	33
Energy	29	21
Materials	15	15
Industrials	6	6
Consumer discretionary	5	7
Telecommunications	5	6
Information technology	4	6
Consumer staples	3	4
Health Care	1	1
Utilities	1	1
Total	100	100

United States Equity Investments

The U.S. equity market closed out the year posting a positive return in U.S. dollars. The Standard & Poor's 1500 Index (S&P 1500), which measures the performance of the top 1,500 American companies, rose by 13.0% this year compared to 7.2% the previous year in U.S. dollars. When translated into Canadian dollars, the index increase was 9.1% compared to negative 1.0% last year.

S&P 1500



US Public Equities	Actual Return %	Benchmark S&P 1500 Index %	Over (Under) bps
One Year	8.2	9.1	(90)
Five Years (annualized)	(1.8)	(1.7)	(10)

The Fund's actual rate of return over the year from U.S. equities was 8.2% in Canadian dollars or 90 basis points less than the S&P 1500 Index, primarily due to security selection. Over five years, the Fund's U.S. equity portfolio returned a negative 1.8%, 10 basis points less than the benchmark.

At March 31, 2006, investments in U.S. equities totalled 16.8%, or $2.5 billion, of the Heritage Fund investment portfolio compared to 16.2%, or $2.0 billion, at March 31, 2005.

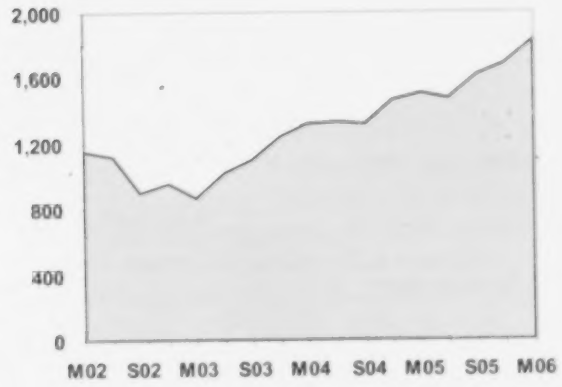
United States Public Equities

(By Industry Sector)

	2006	2005
	%	%
Financials	21	20
Information technology	15	15
Health Care	13	13
Industrials	12	12
Consumer discretionary	11	12
Consumer staples	9	9
Energy	9	9
Materials	4	4
Telecommunications	3	3
Utilities	3	3
Total	100	100

Non-North American Equity Investments

The non-North American equity market recorded healthy returns this year. The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE Index) measures the performance of approximately 1,200 companies on 25 stock exchanges around the world. The index increased by 20.0% over the year compared to 6.2% last year, in Canadian dollars.



EAFE Public Equities	Actual Return %	Benchmark MSCI EAFE Index %	Over (Under) bps
One Year	24.2	20.0	420
Five Years (annualized)	4.7	3.3	140

The Fund's actual return from non-North American equities was 24.2%, 420 basis points better than the benchmark MSCI EAFE Index. Over five years, the Fund's non-North American equity portfolio returned 4.7%, 140 basis points better than the benchmark MSCI EAFE Index.

At March 31, 2006, investments in non-North American equities totalled 16.8%, or $2.5 billion, of the Fund's investment portfolio compared to 16.1%, or $2.0 billion, at March 31, 2005.

Non-North American Public Equities

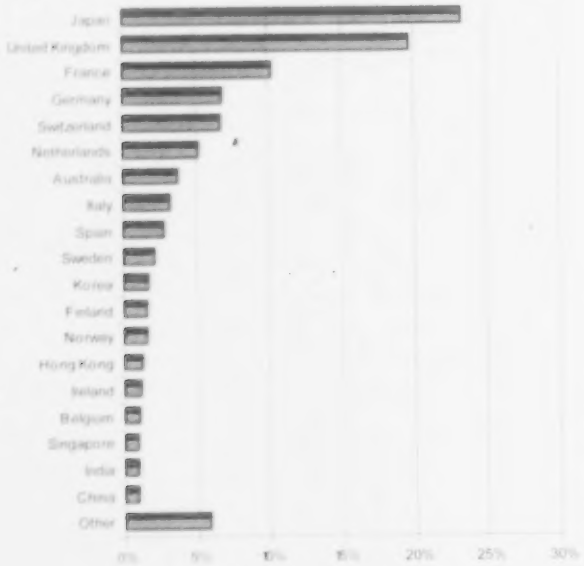
(By Industry Sector)

	2006	2005
	%	%
Financials	29	27
Industrials	13	12
Consumer discretionary	12	14
Energy	8	9
Materials	8	9
Health Care	7	6
Information technology	7	5
Consumer staples	6	6
Telecommunications	6	8
Utilities	4	4
Total	100	100

The Fund's non-North American equity portfolio is invested throughout the world.

Non-North American Equities by Country

Percent of fair value



Real Estate Investments

The Fund's real estate investments are held in the internally managed Private Real Estate Pool and in the Foreign Private Real Estate Pool. Real estate investments earned 20.7% over the year compared to 17.0% the previous year. Over five years, real estate earned 12.3%.

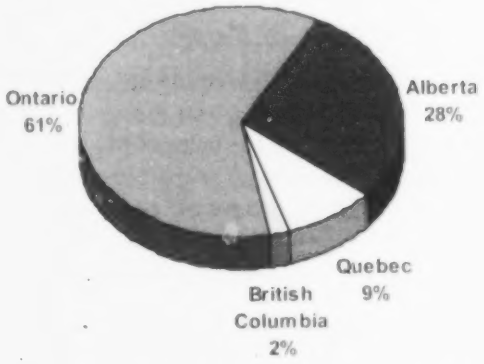
Real estate	Actual Return %	Benchmark IPD Large Institutional All Property Index * %	Over (Under) bps
One Year	20.7	18.1	260
Five Years (annualized)	12.3	10.0	230

* Amounts shown are estimated and may vary significantly from actual amounts when received. Prior to June 1, 2005, the benchmark for real estate was CPI plus 5%. Prior to April 1, 2002, the benchmark was the Russell Canadian Property Index.

The real estate portfolio is invested 50% in retail, 34% in office, 11% in industrial and 5% in residential.

The following chart shows the distribution of Canadian real estate by province.

Real Estate by Geographic Distribution



At March 31, 2006, investments in real estate totalled 9.6%, or $1.4 billion, of the Heritage Fund investment portfolio compared to 9.7%, or $1.2 billion, at March 31, 2005.

Absolute Return Strategies

Absolute return strategy investments encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Over the year, absolute return strategies generated a positive return of 5.2%, 490 basis points less than the benchmark Hedge Fund Research Inc. (HFRX) Global Hedged Index. The underperformance was due to the timing of a benchmark change and given the stronger equity markets, the relatively lower equity exposure of Absolute Return Strategies versus the underlying benchmark.

Absolute Return Strategies	Actual Return %	Benchmark HFRX Global Hedged Index %	Over (Under) bps
One year	5.2	10.1	(490)
Five Years (annualized)	n/a	n/a	-

At March 31, 2006, investments in absolute return strategies totalled 3.8%, or $572 million, of total Fund investments compared to 5.0%, or $611 million, at March 31, 2005.

Private Equity Investments

At March 31, 2006, the private equities comprised a small portion of the Fund's overall investment portfolio at 1.7%, or $258 million, compared to 1.3%, or $153 million, at March 31, 2005.

During the year, the private equity investments returned 18.4%, 820 basis points greater than the benchmark Consumer Price Index (CPI) plus 8%. The outperformace was due to appreciation in the underlying holdings reflective of current market conditions.

Private Equity	Actual Return %	Benchmark CPI plus 8% %	Over (Under) bps
One Year	18.4	10.2	820
Five Years (annualized)	n/a	n/a	-

Private Income Investments

At March 31, 2006, the private income investments comprised 0.6%, or $82 million, of the overall investment portfolio compared to 0.5%, or $61 million, at March 31, 2005. During the year, the private income investments returned 21.3%, 1,310 basis points greater than the benchmark CPI plus 6%. The outperformance was due to income and valuation gains from external funds and co-investments.

Private Income	Actual Return %	Benchmark CPI plus 6% %	Over (Under) bps
One Year	21.3	8.2	1,310
Five Years (annualized)	n/a	n/a	-

Timberland Investments

The timberland product is a new investment this year. At March 31, 2006, timberland investments comprised 0.4%, or $56 million, of the Fund's overall investment portfolio. During the past nine months, timberland investments returned a negative 4.9%, 910 basis points less than the benchmark CPI plus 4%. The underperformance was due to lower than expected cash yield and the effects of foreign currency exposure.

Timberland	Actual Return %	Benchmark CPI plus 4% %	Over (Under) bps
Nine months	(4.9)	4.2	(910)
One Year	n/a	n/a	-
Five Years (annualized)	n/a	n/a	-

ADMINISTRATIVE EXPENSES

Internal management expenses and external management fees are deducted directly from the income earned by pooled investment funds. Internal expenses include expenses recovered by Alberta Finance for management of the Fund and investment pools. External fees include fees charged to investment pools by external investment managers based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools.

The Fund's total administrative expenses for the year, including amounts deducted from the investment income of the pooled funds, amounted to $44.37 million, or 0.3%, of the Funds net assets at fair value compared to $34.64 million, or 0.3%, of net assets last year.

Administrative Expense Breakdown

Year Ended March 31, 2006

	2006	2005
	(thousands)	
Internal expenses		
Fund management	$ 2,300	$ 2,203
Investment pools	4,797	3,713
	7,097	5,916
External fees - investment pools	37,274	28,725
Total	$ 44,371	$ 34,641
Expenses as a percent of net assets at fair value	0.299%	0.283%

Internal expenses increased by $1.181 million compared to last year. External fees increased by $8.549 compared to last year. The increase is primarily due to external manager fees associated with alternative investments such as absolute return strategies, private equities, private income and timberland investments, which have higher investment management fees.

Historical Summary of Operations

May 19, 1976 to March 31, 2006

(millions)

	Net Income (loss)	Transfers From GRF	Transfers To GRF	Net Assets at Cost
1976-77	$ 88	$ 2,120	$ (36)	$ 2,172
1977-78	194	931	(87)	3,210
1978-79	294	1,059	(132)	4,431
1979-80	343	1,332	(478)	5,628
1980-81	724	1,445	(227)	7,570
1981-82	1,007	1,434	(350)	9,661
1982-83	1,482	1,370	(1,162)	11,351
1983-84	1,467	720	(1,799)	11,739
1984-85	1,575	736	(1,803)	12,247
1985-86	1,667	685	(1,907)	12,692
1986-87	1,445	217	(1,672)	12,682
1987-88	1,353	-	(1,482)	12,553
1988-89	1,252	-	(1,407)	12,397
1989-90	1,244	-	(1,378)	12,264
1990-91	1,337	-	(1,487)	12,114
1991-92	1,382	-	(1,466)	12,030
1992-93	785	-	(869)	11,946
1993-94	1,103	-	(1,174)	11,875
1994-95	914	-	(963)	11,826
1995-96	1,046	-	(1,046)	11,826
1996-97	932	-	(756)	12,002
1997-98	947	-	(922)	12,027
1998-99	932	-	(932)	12,027
1999-00	1,169		(939)	12,257
2000-01	706	-	(706)	12,257
2001-02	206	-	(206)	12,257
2002-03	(894)	-	-	11,363
2003-04	1,133		(1,133)	11,363
2004-05	1,092	-	(1,092)	11,363
2005-06	1,397	1,750	(1,015)	13,495
TOTAL (a)	**$ 28,322**	**$ 13,799**	**$ (28,626)**	**$ 13,495**

(a) See note 6 to the financial statements.

Table of Contents

Auditor's Report 17
Statement of Financial Position 18
Statement of Operations and Net Assets 18
Statement of Cash Flows 19
Notes to the Financial Statements 20
Schedule of Investments in Fixed Income Securities 32
Schedule of Investments in Canadian Equities 33
Schedule of Investments in United States Equities 34
Schedule of Investments in Non-North American Equities 35
Schedule of Investments in Real Estate 36
Schedule of Investment Returns 37

Auditor's Report

TO THE MINISTER OF FINANCE

I have audited the statement of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2006 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

FCA
Auditor General

Edmonton, Alberta
May 19, 2006

STATEMENT OF FINANCIAL POSITION

March 31, 2006 (thousands)

	2006	2005
Assets		
Portfolio investments (Note 3)	$ 13,681,630	$ 11,417,548
Accrued investment income	26,433	7,008
Administration expense receivable	22	281
	$ 13,708,085	$ 11,424,837
Liabilities		
Accounts payable	$ 135,842	$ 7
Due to the General Revenue Fund	77,684	62,388
	213,526	62,395
Net Assets (Note 6)	13,494,559	11,362,442
	$ 13,708,085	$ 11,424,837

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2006 (thousands)

	2006		2005
	Budget	Actual	Actual
Net income (Note 7)	$ 680,973	$ 1,397,413	$ 1,091,903
Transfers to the General Revenue Fund (Note 6a)	(465,973)	(1,015,296)	(1,091,903)
Amount retained for inflation-proofing (Note 6a)	215,000	382,117	-
Transfers from the General Revenue Fund (Notes 6c & 6d)	250,000	1,750,000	-
Change in net assets	$ 465,000	2,132,117	-
Net Assets at beginning of year		11,362,442	11,362,442
Net Assets at end of year		$ 13,494,559	$ 11,362,442

The accompanying notes and schedules are part of these financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006 (thousands)

	2006	2005
Operating transactions		
Net income	$ 1,397,413	$ 1,091,903
Non-cash items included in net income	(166,400)	(208,924)
	1,231,013	882,979
(Increase) decrease in accounts receivable	(19,166)	563
Increase (decrease) in accounts payable	135,835	(35)
Cash provided by operating transactions	1,347,682	883,507
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,157,512	2,716,273
Purchase of investments	(3,097,533)	(2,460,083)
Cash (applied to) provided by investing transactions	(1,940,021)	256,190
Transfers		
Transfers from the General Revenue Fund	1,750,000	-
Transfers to the General Revenue Fund	(1,015,296)	(1,091,903)
Increase (decrease) in amounts due to the General Revenue Fund	15,296	(90,097)
Cash provided by (applied to) transfers	750,000	(1,182,000)
Increase (decrease) in cash	157,661	(42,303)
Cash at beginning of year	71,359	113,662
Cash at end of year	$ 229,020	$ 71,359
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 229,020	$ 71,359

The accompanying notes and schedules are part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 (thousands)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act (the Act)*, Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment in fixed-income securities, mortgages, equities, real estate, absolute return strategies and timberland investments that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Note 2 (cont'd)

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3 and Schedules A to E.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and timberland investments. The fair values of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

Note 2 (cont'd)

(iv) The fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

(v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

(viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

(ix) The fair value of investments and any other assets and liabilities denominated in a foreign currency is translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

NOTE 3 PORTFOLIO INVESTMENTS

	2006			2005		
	Cost	Fair Value	%	Cost	Fair Value	%
			(thousands)			
Fixed-Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 229,020	$ 229,020	1.5	$ 71,359	$ 71,359	0.6
Canadian Dollar Public Bond Pool (b)	3,877,585	3,888,854	25.9	3,094,268	3,154,021	25.5
Bonds, notes & short-term paper, directly held (c)	22,315	22,358	0.2	23,067	23,742	0.2
Private Mortgage Pool (d)	584,319	591,638	3.9	518,924	532,357	4.3
Provincial corporation debentures, directly held (e)	80,927	113,925	0.8	88,340	132,261	1.1
Loans, directly held (f)	102,219	102,219	0.7	93,298	93,298	0.8
Currency Alpha Pool (g)	16,751	17,209	0.1	-	-	-
Tactical Asset Pool (h)	28,921	27,947	0.2	24,529	24,555	0.2
	4,942,057	**4,993,170**	**33.3**	**3,913,785**	**4,031,593**	**32.7**
Public Equities						
Canadian (Schedule B)						
Domestic Passive Equity Pooled Fund (i)	1,032,351	1,131,293	7.5	868,241	989,240	8.1
Canadian Pooled Equity Fund (j)	493,715	666,827	4.4	491,455	605,425	4.9
Canadian Equity Enhanced Index Pool (k)	278,441	332,581	2.2	292,113	319,695	2.6
Canadian Large Cap Equity Pool (l)	230,719	231,602	1.5	163,796	184,242	1.5
Growing Equity Income Pool (m)	106,187	150,261	1.0	128,558	152,821	1.3
Canadian Multi-Cap Pool (n)	203,525	205,931	1.4	138,847	138,958	1.1
Tactical Asset Pool Canadian futures contracts (h)	(146,080)	(146,080)	(1.0)	(125,308)	(125,308)	(1.0)
	2,198,858	**2,572,415**	**17.0**	**1,957,702**	**2,265,073**	**18.5**
United States (Schedule C)						
S&P 500 Index Fund (o)	1,472,667	1,629,524	10.9	1,179,505	1,284,273	10.4
US Small/Mid Cap Equity Pool (p)	266,559	307,170	2.1	237,574	240,550	2.0
US Large Cap Equity Pool	-	-	-	77	77	-
Portable Alpha United States Equity Pool (q)	386,366	382,057	2.5	326,700	316,340	2.6
Growing Equity Income Pool (m)	47,759	46,552	0.3	24,513	24,350	0.2
Tactical Asset Pool US futures contracts (h)	147,487	147,487	1.0	125,969	125,969	1.0
	2,320,838	**2,512,790**	**16.8**	**1,894,338**	**1,991,559**	**16.2**
Non-North American (Schedule D)						
EAFE Active Equity Pool (r)	1,615,625	1,867,616	12.4	1,402,418	1,467,601	12.0
EAFE Passive Equity Pool (s)	169,033	238,566	1.6	267,922	364,905	3.0
Emerging Markets Equity Pool (t)	116,466	159,782	1.1	128,567	141,465	1.1
EAFE Structured Equity Pool (s)	264,167	253,781	1.7	-	-	-
	2,165,291	**2,519,745**	**16.8**	**1,798,907**	**1,973,971**	**16.1**
Real Estate (Schedule E)						
Private Real Estate Pool (u)	1,055,710	1,396,862	9.3	966,041	1,148,626	9.4
Foreign Private Real Estate Pool (v)	44,916	44,042	0.3	43,161	40,948	0.3
	1,100,626	**1,440,904**	**9.6**	**1,009,202**	**1,189,574**	**9.7**
Absolute Return Strategies (w)	**569,151**	**571,720**	**3.8**	**615,053**	**610,593**	**5.0**
Private Equities (x)	**243,179**	**258,322**	**1.7**	**166,624**	**153,374**	**1.3**
Private Income (x)	**81,688**	**81,948**	**0.6**	**61,937**	**61,012**	**0.5**
Timberland (y)	**59,942**	**56,454**	**0.4**	**-**	**-**	**-**
Total Investments (z)	**$ 13,681,630**	**$ 15,007,468**	**100.0**	**$ 11,417,548**	**$ 12,276,749**	**100.0**

Note 3 (cont'd)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2006	2005
Absolute Return Strategy Pool	88.5	88.5
Canadian Dollar Public Bond Pool	40.2	35.6
Canadian Equity Enhanced Index Pool	25.8	60.2
Canadian Large Cap Equity Pool	12.6	8.0
Canadian Multi-Cap Pool	56.9	60.2
Canadian Pooled Equity Fund	54.5	56.3
Currency Alpha Pool	28.9	-
Domestic Passive Equity Pooled Fund	42.3	41.7
EAFE Active Equity Pool	31.7	31.7
EAFE Passive Equity Pool	76.5	79.9
EAFE Structured Equity Pool	24.0	-
Emerging Markets Equity Pool	26.4	33.6
Foreign Private Equity Pool (02)	43.8	43.8
Foreign Private Equity Pool (05)	87.3	-
Foreign Private Real Estate Pool	87.1	87.1
Growing Equity Income Pool	55.8	59.1
Portable Alpha United States Equity Pool	87.9	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (02)	62.1	62.1
Private Equity Pool (04)	77.0	77.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	25.7	25.7
Private Income Pool 2	86.7	-
Private Mortgage Pool	43.4	44.2
Private Real Estate Pool	37.1	40.4
Standard & Poor's 500 Index Fund	71.8	69.3
Tactical Asset Allocation Pool	86.7	35.5
Timberland Pool	87.6	-
US Small/Mid Cap Equity Pool	25.2	25.5

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (2005: 2.79% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2006, securities held by the Pool have an average effective market yield of 4.7% per annum (2005: 4.48% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 3%); 1 to 5 years: 34% (2005: 38%); 5 to 10 years: 33% (2005: 31%); 10 to 20 years: 12% (2005: 12%); and over 20 years: 19% (2005: 16%).

Note 3 (cont'd)

(c) As at March 31, 2006, fixed-income securities held directly by the Fund have an average effective market yield of 3.92% per annum (2005: 3.18% per annum). As at March 31, 2006, fixed-income securities have the following term structure based on principal amount: under two years: 100% (2005: 100%).

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.5%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2006, securities held by the Pool have an average effective market yield of 5.27% per annum (2005: 5.29% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 2%); 1 to 5 years: 19% (2005: 22%); 5 to 10 years: 50% (2005: 43%); 10 to 20 years: 10% (2005: 12%); and over 20 years: 19% (2005: 21%).

(e) As at March 31, 2006, Provincial corporation debentures have an average effective market yield of 8.00% per annum (2005: 7.51% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100% (2005: 100%).

(f) Investments in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at March 31, 2006, investment in loans, at cost, include the Ridley Grain loan amounting to $100,000 (2005: $91,245) and the Vencap loan amounting to $2,219 (2005: $2,053).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $100,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2006 amounted to $90,161 (2005: $92,517). The increase in carrying value of the Ridley Grain loan resulted from a change in management's estimate of the realizable value of the loan. Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

(g) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(h) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At March 31, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

Note 3 (cont'd)

(i) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(j) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

(k) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(l) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(m) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

(n) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (i)).

(o) Publicly traded U.S. equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the FRNP is used as the underlying security to support the index swaps of the pool (see Note 3 (i)).

(p) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(q) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in

Note 3 (cont'd)

value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(r) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(s) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicates the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (i)).

(t) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(u) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(v) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(w) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(x) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002 and the Foreign Private Equity Pool 2005. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool invests in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(y) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

Note 3 (cont'd)

(z) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006:

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				(thousands)			
Equity index swap contracts	75%	25%	-	$ 2,460,014	$ 45,423	$ 1,534,324	$ 7,673
Interest rate swap contracts	22%	49%	29%	1,053,569	(2,391)	491,031	(12,449)
Forward foreign exchange contracts	100%	-	-	1,554,419	(1,980)	935,430	13,334
Cross-currency interest rate swaps	14%	34%	52%	711,678	52,051	580,540	2,228
Credit default swap contracts	2%	5%	93%	1,298,187	2,984	128,430	1,384
Bond index swap contracts	100%	-	-	236,998	24,470	61,311	428
Equity index futures contracts	100%	-	-	782,574	15,652	302,125	5,957
				$ 8,097,439	$ 136,209	$ 4,033,191	$ 18,555

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2006-2009 Business Plan proposed the following long-term policy asset mix for the Fund.

Public equities	45.0%
Fixed income securities	30.0%
Real estate	10.0%
Absolute return strategies	5.0%
Private equities	4.0%
Private income	4.0%
Timberland	2.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 NET ASSETS

The following table shows accumulated net income and transfers from (to) the General Revenue Fund (GRF) since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2006	2005
	(thousands)	
Accumulated net income	$ 28,321,592	$ 26,924,179
Transfers to General Revenue Fund (a)		
Section 8(2) transfers		
Income	(25,953,222)	(24,555,809)
Amount Retained for Inflation-proofing	812,753	430,636
	(25,140,469)	(24,125,173)
Capital Expenditures (1976-1995) (b)	(3,485,888)	(3,485,888)
	(28,626,357)	(27,611,061)
Transfers from the General Revenue Fund		
Resource Revenue (1976-1987)	12,049,324	12,049,324
Access to the Future (c)	750,000	-
Appropriations (d)	1,000,000	-
	13,799,324	12,049,324
Net Assets	**$ 13,494,559**	**$ 11,362,442**

(a) In accordance with section 8(2) of the *Alberta Heritage Savings Trust Fund Act (the Act)*, the Fund transferred $1,015 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $1,397 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $382 million, shall be transferred to the General Revenue Fund annually in a manner determined by the Minister of Finance.

(b) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research Endowment Fund in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

(c) Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be allocated from the GRF to the Fund, of which $750 million was received in the current year.

(d) On March 20, 2006, the Fund received $1 billion from the GRF under *The Appropriation (Supplementary Supply) Act, 2006*, which received Royal Assent on March 16, 2006.

NOTE 7 NET INCOME

	2006	2005
	(thousands)	
Deposit and fixed-income securities	$ 318,152	$ 264,136
Canadian equities	594,845	450,950
United States equities	57,840	9,086
Non-North American equities	299,714	258,049
Real estate	89,573	68,678
Absolute return strategies	23,444	32,098
Private equities	5,380	7,925
Private income	11,853	3,184
Timberland	(1,088)	-
Investment income	**1,399,713**	**1,094,106**
Direct administrative expenses (Note 8)	(2,300)	(2,203)
Net income	**$ 1,397,413**	**$ 1,091,903**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the year ended March 31, 2006 includes write-downs totalling $43,055 (2005: $34,425).

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Comparative figures have been restated to include estimated indirect external management fees deducted directly from income of private equity and private income investments, real estate, timberland and absolute return strategies.

	2006	2005
		(restated)
	(thousands)	
Direct fund expense (Note 7)	$ 2,300	$ 2,203
External management fees	37,274	28,725
Internal management expenses	4,797	3,713
Total	$ 44,371	$ 34,641
Percent of net assets at fair value	0.299%	0.283%

NOTE 9 INVESTMENT PERFORMANCE (SCHEDULE F)

The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	15.2%	7.1%
Benchmark return (1)(2)	13.8%	6.7%

(1) The overall benchmark return for the year ended March 31, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

(2) The Fund is expected to generate a real rate of return of 4.5% over a moving five-year period based on the Fund's business plan. Over a five-year period, the annualized inflation rate was 2.2%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.7%.

NOTE 10 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to 2006 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2006 (thousands)

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 276,441	$ 276,441	$ 103,527	$ 103,527
Fixed-income securities (a)				
Corporate, public and private	2,599,608	2,583,255	1,890,339	1,905,009
Government of Canada, direct and guaranteed	1,104,032	1,097,843	960,687	968,395
Provincial, direct and guaranteed:				
Alberta	23,397	23,044	1,781	1,931
Other provinces	681,060	720,829	712,581	761,815
Provincial corporation debentures	80,927	113,925	88,340	132,261
Loans	102,218	102,218	93,298	93,298
Municipal	18,445	19,686	37,860	39,985
	4,609,687	4,660,800	3,784,886	3,902,694
Receivable from sale of investments and accrued investment income	95,136	95,136	43,651	43,651
Accounts payable and accrued liabilities	(39,207)	(39,207)	(18,279)	(18,279)
	55,929	55,929	25,372	25,372
	$ 4,942,057	**$ 4,993,170**	**$ 3,913,785**	**$ 4,031,593**

(a) Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.98% per annum (2005: 4.84% per annum) and the following term structure based on principal amount:

	2006	2005
	%	%
under 1 year	3	3
1 to 5 years	30	33
5 to 10 years	35	36
10 to 20 years	13	11
over 20 years	19	17
	100	100

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2006 (thousands)

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 12,558	$ 12,558	$ 17,140	$ 17,140
Public equities (a) (b)				
Financials	660,495	760,049	637,357	725,438
Energy	554,056	711,005	357,358	459,663
Materials	301,259	374,979	276,563	322,935
Industrials	124,398	152,304	99,590	121,832
Consumer discretionary	129,733	131,980	136,794	143,247
Telecommunication services	105,590	119,040	123,781	138,568
Information technology	107,604	103,013	118,285	121,644
Consumer staples	73,608	74,865	81,341	98,161
Health care	29,495	26,870	30,952	30,464
Utilities	22,815	25,320	24,398	31,333
	2,109,053	2,479,425	1,886,419	2,193,285
Small Cap Pooled Fund	58,821	62,006	41,766	42,271
Receivable from sale of investments and accrued investment income	59,641	59,641	37,239	37,239
Accounts payable and accrued liabilities	(41,215)	(41,215)	(24,862)	(24,862)
	18,426	18,426	12,377	12,377
	$ 2,198,858	**$ 2,572,415**	**$ 1,957,702**	**$ 2,265,073**

(a) The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $1,047,241 (2005: $907,201).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2006 (thousands)

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 8,924	$ 8,924	$ 29,803	$ 29,803
Public equities (a) (b)				
Financials	492,193	528,942	387,321	398,319
Information technology	353,870	382,823	287,905	298,195
Health Care	296,126	318,816	249,009	255,525
Industrials	283,024	310,205	233,052	248,242
Consumer discretionary	242,824	261,940	218,328	233,740
Energy	203,682	234,654	151,561	171,637
Consumer staples	204,301	210,917	177,873	184,501
Materials	77,008	87,447	72,307	77,985
Utilities	74,274	78,710	65,324	70,617
Telecommunication services	67,341	72,141	52,937	54,077
	2,294,643	2,486,595	1,895,617	1,992,838
Receivable from sale of investments and accrued investment income	80,368	80,368	16,281	16,281
Accounts payable and accrued liabilities	(63,097)	(63,097)	(47,363)	(47,363)
	17,271	17,271	(31,082)	(31,082)
	$ 2,320,838	**$ 2,512,790**	**$ 1,894,338**	**$ 1,991,559**

(a) The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $1,326,594 (2005: $929,248).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2006 (thousands)

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 57,576	$ 57,576	$ 37,408	$ 37,408
Public equities (a) (b)				
Financials	572,706	699,874	439,381	500,068
Industrials	259,529	321,123	200,853	226,907
Consumer discretionary	245,825	286,011	237,437	253,047
Materials	157,432	195,718	145,507	166,576
Energy	148,267	179,909	143,749	165,802
Health care	154,693	166,597	111,514	113,706
Information technology	146,110	162,371	91,900	94,916
Consumer staples	138,700	143,264	101,731	109,365
Telecommunication services	137,771	131,617	155,675	161,388
Utilities	91,188	105,082	74,749	82,541
	2,052,221	2,391,566	1,702,496	1,874,316
Emerging market pooled funds	46,867	61,976	55,559	58,803
Receivable from sale of investments and accrued investment income	48,418	48,418	23,849	23,849
Accounts payable and accrued liabilities	(39,791)	(39,791)	(20,405)	(20,405)
	8,627	8,627	3,444	3,444
	$ 2,165,291	**$ 2,519,745**	**$ 1,798,907**	**$ 1,973,971**

(a) The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and equity index futures contracts totalling $242,413 (2005: $nil).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Japan	$ 489,461	$ 556,801	$ 312,925	$ 320,278
United Kingdom	431,466	471,910	380,864	405,968
France	206,848	242,852	162,309	183,838
Germany	134,382	162,451	119,400	131,916
Switzerland	140,028	160,948	106,425	117,242
Netherlands	100,723	122,836	91,777	100,489
Australia	77,449	88,969	67,350	83,907
Italy	64,186	76,189	59,403	71,454
Spain	59,245	66,008	46,605	54,061
Sweden	40,398	49,272	44,048	49,991
Other	308,035	393,330	311,390	355,172
	$ 2,052,221	$ 2,391,566	$ 1,702,496	$ 1,874,316

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2006 (thousands)

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 766	$ 766	$ 469	$ 469
Real estate (a)				
Office	498,043	690,588	453,555	522,348
Retail	335,662	462,023	360,867	465,131
Industrial	127,434	145,334	79,273	90,736
Residential	58,525	62,871	53,785	51,850
	1,019,664	1,360,816	947,480	1,130,065
Foreign Private Real Estate Pool	44,916	44,042	43,161	40,948
Participation units	32,397	32,397	16,571	16,571
Accrued income and accounts receivable	2,883	2,883	1,521	1,521
	$ 1,100,626	**$ 1,440,904**	**$ 1,009,202**	**$ 1,189,574**

(a) The following is a summary of real estate investments by geographic location

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 640,189	$ 828,604	$ 606,473	$ 752,027
Alberta	232,439	380,913	192,339	234,630
Quebec	126,261	124,425	126,049	118,870
British Columbia	20,775	26,874	22,619	24,538
	$ 1,019,664	$ 1,360,816	$ 947,480	$ 1,130,065

SCHEDULE OF INVESTMENT RETURNS

Schedule F

For the Year Ended March 31, 2006

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

	One Year Return - %					5 Year Compound Annualized
Time-weighted rates of return	2006	2005	2004	2003	2002	Return
Short-term fixed income	**2.9**	**2.3**	**2.9**	**3.0**	**3.8**	**3.0**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*3.7*	*2.9*
Long-term fixed income	**6.5**	**5.5**	**11.3**	**9.5**	**5.9**	**7.7**
Scotia Capital Universe Bond Index	*4.9*	*5.0*	*10.8*	*9.2*	*5.1*	*7.0*
Canadian equities	**28.8**	**15.4**	**36.6**	**(16.6)**	**4.2**	**12.1**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*4.9*	*11.7*
United States equities	**8.2**	**(1.6)**	**22.0**	**(30.6)**	**1.4**	**(1.8)**
S&P 1500 Index	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*1.6*	*(1.7)*
Non-North American equities	**24.2**	**7.6**	**40.9**	**(29.1)**	**(5.8)**	**4.7**
MSCI EAFE Index	*20.0*	*6.2*	*40.5*	*(29.3)*	*(7.3)*	*3.3*
Real estate	**20.7**	**17.0**	**7.5**	**9.8**	**7.3**	**12.3**
IPD Large Institutional All Property Index	*18.1*	*7.1*	*5.7*	*9.6*	*9.9*	*10.0*
Absolute return strategies	**5.2**	**5.5**	**10.7**	**1.6**	**n/a**	**n/a**
HFRX Global Hedged Index	*10.1*	*8.1*	*6.7*	*4.7*	*n/a*	*n/a*
Private equities	**18.4**	**5.2**	**4.6**	**(3.3)**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*10.2*	*10.1*	*8.7*	*5.7*	*n/a*	*n/a*
Private income	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*	*n/a*
Timberland investments*	**(4.9)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
*CPI plus 4%**	*4.2*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Total Endowment portfolio	**15.2**	**7.7**	**22.5**	**(11.3)**	**3.3**	**6.8**
Policy Benchmark	*13.8*	*6.4*	*21.7*	*(11.7)*	*3.4*	*6.1*
Transition portfolio	**n/a**	**n/a**	**n/a**	**0.5**	**5.3**	**n/a**
Overall Return	**15.2**	**7.7**	**22.5**	**(11.0)**	**4.2**	**7.1**

* Returns from Timberland investments are for nine months.

List of Investments (unaudited)

The following unaudited schedules (1 to 5) present the Heritage Fund's proportionate share of the ten largest public securities held in the largest pooled funds in each asset class on page 40. For a detailed listing of all investments, please call (780) 427-5364.

CANADIAN DOLLAR PUBLIC BOND POOL

Schedule 1

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2006 (thousands)

Security Name		Coupon % Maturity Date	Heritage Fund Share Par Value	Fair Value
Toronto Dominion Centre	Bond	6.300 FEB 28 08	136,648	$ 140,748
Bay-Wellington Tower	Mortgage	6.400 APR 08 13	114,744	122,088
Province of Ontario	Bond	6.500 MAR 08 29	39,976	49,449
Depfa ACS Bank	Bond	4.900 AUG 24 35	48,229	47,952
Toronto Dominion Bank	MBS	5.600 JUN 01 24	36,076	39,052
REAL-T 2005-2 CL A1	Bond	4.342 JUN 12 15	39,599	38,897
Province of Quebec	Bond	6.000 OCT 01 29	27,257	31,360
Bank of Nova Scotia	MBS	4.900 DEC 01 12	28,383	28,943
Province of Quebec	Bond	6.250 JUN 01 32	23,777	28,353
York University	Bond	5.841 MAY 04 44	23,913	27,595
Total Other Issues				3,334,417
Heritage Fund's Investment in the Canadian Dollar Public Bond Pool				**$ 3,888,854**

DOMESTIC PASSIVE EQUITY POOL FUND

Schedule 2

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2006 (thousands)

Security Name	Major Industry Name	Heritage Fund Share Shares	Heritage Fund Share Fair Value
Floating Rate Note Pool	Floating Rate Notes (1)	40,277	$ 614,956
Deposits in CCITF and Short-term securities	Cash and short-term securities (1)	-	116,026
Canadian Oil Sands Trust	Energy	79	13,169
Sears Canada Inc.	Consumer Discretionary	538	9,735
Power Corporation of Canada	Financials	265	8,876
Power Financial Corporation	Financials	192	6,788
Yellow Pages	Consumer Discretionary	414	6,719
Shell Canada	Energy	154	6,338
Penn West Energy Trust	Energy	139	5,928
EnergyPlus Resources Trust	Energy	100	5,854
Total Other Issues			336,904
Heritage Fund's Investment in the Domestic Passive Equity Pool			**$ 1,131,293**

EFFECTIVE INVESTMENT (2)

Security Name	Major Industry Name	Heritage Fund Share Fair Value
Royal Bank of Canada	Financials	$ 53,816
Manulife Financial Corp	Financials	49,132
Encana Corp	Energy	39,957
Bank of Nova Scotia	Financials	39,618
Toronto Dominion Bank	Financials	39,426
Suncor Energy Inc.	Energy	34,855
Canadian Natural Resources Ltd.	Energy	29,753
Bank of Montreal	Financials	27,830
Petro-Canada	Energy	24,413
Sun-Life Financial Inc.	Financials	24,402
Total Other Issues		768,091
Heritage Fund's Investment in the Domestic Passive Equity Pool		**$ 1,131,293**

(1) Floating rate notes, deposits and short-term securities are underlying securities for S&P/TSX equity index swaps.
(2) The effective investment takes into account the Fund's exposure to the top ten securities comprising the S&P/TSX Composite Index through equity index swap and equity index futures contracts.

CANADIAN POOLED EQUITY FUND

Schedule 3

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2006 (thousands)

Security Name	Major Industry Name	Heritage Fund Share Shares	Heritage Fund Share Fair Value
Toronto Dominion Bank	Financials	560	$ 36,413
Royal Bank Of Canada	Financials	719	35,386
Manulife Financial Corp	Financials	414	30,329
Encana Corporation	Energy	540	29,424
Petro Canada	Energy	502	27,822
Canadian National Railway	Industrials	384	20,305
Teck Cominco Ltd.	Materials	266	19,975
Barrick Gold Corp	Materials	598	19,007
Talisman Energy Inc.	Energy	291	18,061
Canadian National Resources	Energy	270	17,542
Total Other Issues			412,563
Heritage Fund's Investment in the Canadian Pooled Equity Fund			**$ 666,827**

S&P 500 INDEX FUND

Schedule 4

Schedule of Investments (based on fair value)

as at March 31, 2006 (thousands)

Security Name	Major Industry Name	Heritage Fund Share Shares	Heritage Fund Share Fair Value
Floating Rate Note Pool	Floating rate notes (1)	25,848	$ 394,657
Deposits in CCITF and short-term securities	Cash and cash equivalents (1)	-	382,353
Exxon Mobil Corp	Energy	362	25,734
General Electric Company	Industrials	618	25,103
Micrsoft Corporation	Information technology	527	16,743
Citigroup Inc	Financials	296	16,325
Bank of America Corporation	Financials	276	14,647
Procter and Gamble Company	Consumer Staples	195	13,124
Pfizer Inc	Health care	435	12,656
Johnson and Johnson	Health care	177	12,205
Total Other Issues			715,977
Heritage Fund's Investment in the S&P 500 Index Fund			**$ 1,629,524**

EFFECTIVE INVESTMENT (2)

Security Name	Major Industry Name	Heritage Fund Share Fair Value
Exxon Mobil Corporation	Energy	$ 51,338
General Electric Company	Industrials	50,079
Microsoft Corporation	Information Technology	33,402
Citigroup Inc.	Financials	32,566
Bank of America Corporation	Financials	29,220
Proctor and Gamble Corporation	Consumer Staples	26,181
Pfizer Inc.	Health Care	25,288
Johnson and Johnson	Health Care	24,348
American International Group Inc.	Financials	23,700
Altria Group Inc.	Consumer Staples	20,429
Total Other Issues		1,312,973
Heritage Fund's Investment in the S&P 500 Index Pool		**$ 1,629,524**

(1) Floating rate notes, deposits and short-term securities are underlying securities for S&P500 equity index swaps.
(2) The effective investment takes into account the Fund's exposure to the top ten securities comprising the S&P500 Index through equity index swaps and equity index futures contracts.

EXTERNAL MANAGERS EAFE ACTIVE POOL

Schedule 5

Schedule of Investments (based on fair value)

as at March 31, 2006 (thousands)

Security Name	Major Industry Name	Country	Heritage Fund Share Shares	Heritage Fund Share Fair Value
Sanofi Aventis	Health Care	France	257	$ 28,555
Total SA	Energy	France	80	24,628
Glaxosmithkline	Health Care	United Kingdom	736	22,491
BCO Sant Cent Hisp	Financials	Spain	1,153	19,688
Credit Suisse Group	Financials	Switzerland	282	18,486
Prudential PLC	Financials	United Kingdom	1,310	17,743
Nokia OYJ	Information technology	Finland	729	17,650
ABB Ltd	Industrials	Switzerland	1,182	17,420
Sumitomo Mitsui Group	Financials	Japan	1	16,585
Vodafone Group	Telecommunication Services	United Kingdom	6,776	16,573
Total Other Issues				1,667,797
Heritage Fund's Investment in the External Managers EAFE Active Pool				**$ 1,867,616**

GLOSSARY

ABSOLUTE RETURN STRATEGIES

Absolute Return Strategies encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long short equity, fixed income arbitrage, merger arbitrage, macroeconomic strategies, convertible arbitrage, distressed securities and short selling.

ACCRUED INTEREST

Interest income that has been earned but not paid in cash.

ACTIVE STRATEGIES

The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P/TSX Index for Canadian Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

ASSET MIX

The percentage of an investment fund's assets allocated to major asset classes (for example 60% equities, 5% real estate and 35% fixed income).

BEAR MARKET

A market in which prices are declining. A "bear" is a person who expects that the market or the price of a particular security will decline.

BENCHMARK

A standard against which others are measured. For the purposes of this report, benchmarks are established income indices used to measure the health of the Fund's investment income.

BOND/DEBENTURE

A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

BOOK VALUE

See Cost Value.

BULL MARKET

A market in which prices are rising. A "bull" is a person who expects that the market or the price of a particular security will rise.

CAPITAL GAIN

The market value received on sale of an asset beyond its book value or purchase price. If the asset is bought for $50 and sold for $75, the realized capital gain (profit) is $25.

COST VALUE

The value for which an asset was acquired.

DEPOSITS

Liquid, short-term investments. A cash equivalent.

DERIVATIVE CONTRACT

Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

DIVERSIFICATION

Spreading investments to reduce risk by buying different securities from various companies, businesses, locations and governments.

EMERGING MARKET

An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

EQUITY

Stocks; the ownership interest in a company.

EXTERNAL MANAGER

A third-party firm contracted to provide investment management services.

FAIR VALUE

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is similar to market value.

FIXED INCOME SECURITIES

Interest bearing investments such as bonds and debentures and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

GENERAL REVENUE FUND (GRF)

The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most of the expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

These are accounting guidelines formulated by the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board (AcSB), that govern how businesses report their financial statements to the public. The recommendations of the Public Sector Accounting Board (PSAB) of the CICA are the primary source for the disclosed basis of accounting.

INTEREST RATE SENSITIVE EQUITY

Equity whose return is expected to react to changes in interest rates.

INVESTMENT PORTFOLIO

A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LARGE CAP

Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

LIQUIDITY

The ease with which an asset can be turned into cash and the certainty of the value it will obtain.

MARKET VALUE

See fair value

MARKET (VALUE) RATE OF RETURN

The market value rate of return measures income (interest and dividends) and capital appreciation or depreciation (realized and unrealized). The method used to calculate the return is the time-weighted method.

Time-weighted rates of return are designed to eliminate the effect that the size and timing of cash flows has on the internal rate of return since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

MARKETABLE SECURITY

An investment for which there is usually a ready market.

MID-TERM INVESTMENT

A fixed income instrument (bonds, debentures, treasury bills or discount notes) that matures in one to five years from the date of acquisition.

MODIFIED DURATION

A measure of price volatility of fixed income securities (i.e., bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY

A fixed income security that matures within one year from the date of acquisitor.

NET INCOME

The amount of earnings remaining after deducting expenses.

NET INVESTMENT INCOME

On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, include in addition to the above, current period changes in unrealized gains and losses.

NOMINAL RATE OF RETURN

A measure of return that does not exclude the effect of inflation (see Real Rate of Return).

PAR VALUE

A value set as the face or principal amount of a security, typically expressed as multiples of $100 or $1,000. Bondholders receive par value for their bonds at maturity.

PASSIVE STRATEGIES

These strategies involve investing to replicate the performance of a given market index, such as the S&P/TSX Composite Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

REAL VALUE OR REAL RATE OF RETURN

A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED AND UNREALIZED

Terms generally used to describe capital gains or losses. A gain or loss is realized when the asset is sold; prior to sale, the gain or loss is unrealized and it is only a potential gain or loss.

SECURITY

Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT

An investment with a maturity date of less than one year.

SMALL CAP

Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

TERM-TO-MATURITY

The number of years left until a bond matures.

VOLATILITY

In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

Alberta Heritage Savings Trust Fund
Alberta Finance
Room 434, 9515 - 107 Street
Edmonton, Alberta T5K 2C3
(780) 427-5364

Alberta Heritage Savings Trust Fund Standing Committee

Chair:	Ronald Liepert, MLA Calgary-West
Deputy Chair:	George Rogers, MLA Leduc-Beaumont-Devon
Members:	Wayne Cao, MLA Calgary-Fort
	Hector Goudreau, MLA Dunvegan-Central Peace
	Hugh MacDonald, MLA Edmonton-Gold Bar
	Weslyn Mather, MLA Edmonton-Millwoods
	Art Johnston, MLA Calgary-Hays
	Hung Pham, MLA Calgary-Montrose
	Lloyd Snelgrove, MLA Vermilion-Lloydminster

Committee Clerk
Karen Sawchuk

Endowment Fund Policy Committee

Chair:	Allister J. McPherson
Members:	Mel Knight, MLA Grande Prairie-Smoky
	Carol Haley, MLA Airdrie-Chestermere
	Alvin Libin, Balmon Investments Ltd.
	Rob Jennings, Jennings Capital Inc.
	Bill Hutchison, Money Ware Inc.
	Robert Phillips, R.L. Phillips Investment Inc.
	John Swendsen, National Bank of Canada
	Peter Watson
	Brian Manning (ex officio), Deputy Minister of Finance

Secretary
Gail Armitage, Executive Director, Policy and Strategic Planning, Alberta Finance

Investment Manager

Jai Parihar, Chief Investment Officer, Investment Management Division, Alberta Finance

Auditor

Fred J. Dunn, FCA, Auditor General of Alberta

PRODUCED BY

Alberta
Finance

Printed on Recyled Paper